



**Board Meeting
May 29, 2015**

PRESENT: John Rodgers, Chairperson; Beryl L. Feinberg, Councilmember; Barbara Matthews, City Manager; Stan Seemann, Citizen Representative; Anita McCombs, AAME Representative; Sgt. Chris Peck, FOP Representative; and Derrick Pierson, Union Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Daisy Harley and Karen Marshall, Human Resources; Tim Peifer, Finance Department; as well as Ryen Sherman, Segal Rogerscasey, Inc.

The meeting commenced at 9:03 a.m. with introductions.

I. Approval of minutes February 27, 2015:

Ms. Matthews made a motion to approve the minutes subject to the list of clerical changes that she provided. Mr. Pierson seconded it. All were in favor.

II. Follow Up Education Meetings (May 20 and May 21):

Mr. Rodgers said he attended both presentations and they were extremely well done. He stated they were very good for employees nearing retirement. The presentation was focused on planning, and there was good interaction between presenters and attendees.

Ms. Harley said 51 employees signed in, 26 from Gude and 25 from City Hall. She said the 40-60 age group presentation was more robust; the feedback from the employees that attended was very good. The presentations were well received and the presenter did a good job. Most of the comments received on the evaluations were positive.

Ms. Marshall attended the 40-60 age group presentation and opined that the information given was really good.

Mr. Pierson attended the 40-60 age group presentation. He said that the employees at Gude feel inhibited about attending these presentations because they are encouraged to stay at their job site. Ms. Harley agreed that there is pressure to not attend the presentations. Ms. Matthews said she would follow up with the Directors of both Departments about allowing the employees at Gude to attend future presentations.

Ms. Harley said the next presentations were scheduled for September 16 and 17 and the calendar for next year's presentations would be discussed at the November Retirement Board meeting.

Mr. Pierson requested a separate information board be installed at Gude for Retirement information. Ms. Matthews asked if it would be helpful to have it put on the electronic board already there and Mr. Pierson said it would be good to put it on both.

III. Pension Funding Policy:

Mr. Cohen presented this item. He said this policy has been before the Board two or three times and this is the first time the Board will be adopting this funding policy. He said he did his best to incorporate all of the Board's comments and suggestions and encouraged the Board to adopt it at this time.



Mr. Rodgers said that the policy seemed to be in order and had no comments.

Ms. Matthews made a motion to adopt the Pension Funding Policy as presented. Councilmember Feinberg seconded. All were in favor.

The master signature page was passed around for each Board Member to sign.

IV. Thrift Plan - Investment Policy:

Mr. Cohen presented this item. He said this policy has similarly been before the Board a couple of times.

Mr. Rodgers had no changes. Ms. Matthews said she just had some formatting changes, which she would give to Mr. Cohen.

The Board approved the revised investment guidelines and decided to remove the manager specific page from the document so that the document does not need to be updated every time there is a manager change.

Councilmember Feinberg made a motion to adopt Thrift Plan Investment Policy. Mr. Seemann seconded it. All were in favor.

The master signature page was passed around for each Board Member to sign.

V. Investment Performance Review Quarter End March 31, 2015:

Mr. Sherman from Segal Rogerscasey presented the reports for all three funds.

He started with the Pension Fund. The Pension Fund returned 7.1% for the year, which outpaced the benchmark and amounted to about \$5.9 million in investment gains. The asset allocation is in line with guidelines, but slightly overweights large cap equity, small cap equity and GTAA. The majority of the managers outperformed their respective benchmarks for the year.

At the last meeting, the Board discussed moving half the fixed income assets to a Barclays Aggregated Bond Index Fund on Principal's platform to satisfy the benefit index requirement and conduct a search for an outside alternative bond manager. Mr. Sherman reviewed the alternative bond search and discussed the impact to the benefit index. Each of the candidates included in the search have opportunistic strategies and will re-position the allocation of their portfolios in response to changing market conditions. In addition, all of the managers had positive performances in 2013 when interest rates increased and core bonds declined in value. The Board decided to move half of the fixed income assets to Blackrock as they can invest in the most sectors and have had the best performance (see Agenda Item VI). The Board also decided to allocate the other half of the portfolio to the index fund on Principal's platform. The changes will reduce the amount of assets dedicated to fulfillment of the benefit index requirement, but the amount will remain above the \$25 million minimum that is stipulated in the investment guidelines.

Mr. Sherman presented the Thrift Plan report next. The total assets ended the quarter at \$27 million. The Principal Preservation Fund is the most utilized investment option and accounts for 23% of assets. The utilization rate of Goal Maker increased to 41.6% and comprised 33.7% of total assets.



The assets in the PIMCO Real Return Fund were mapped to the Principal Diversified Real Asset Fund on May 5, 2015.

Prudential lowered their fee from 27 bps to 25 bps effective April 1, 2015.

All the investment options are performing in line with expectations except for the T Rowe Price equity income strategy. Mr. Sherman suggested adding the fund to the watch list.

Mr. Sherman noted the recent changes to Prudential's service team.

The Board stated they were not happy with Prudential and would like Mr. Sherman to work with Mr. Cohen on obtaining a price quote from ICMA to take over the Thrift Plan record keeping. They want ICMA to bid on two scenarios: 1) mapping the assets to the current 457 Plan Investment line up; 2) mapping the assets to a comparable core line up on the Thrift Plan (see Agenda Item VIII).

Mr. Sherman presented the Retiree Benefit Trust report next. The fund returned 4.4% for the year, which amounted to \$244,136 in income and investment gains. Manning & Napier has maintained an overweight to equity, which has proved beneficial over the past few years. They underperformed over the last year due to their overweight to international stocks and the energy sector. They were also short duration on the bond side. The fund returned 11.2% since inception, which outperformed the benchmark.

Mr. Sherman said that Segal will look to further diversify the assets and managers as the assets continue to grow.

VI. Fund Manager Search Pension Plan Core Bond Fund Alternative:

Mr. Rodgers asked Mr. Sherman to give a brief explanation on this item.

Mr. Sherman said 20% allocation of core bonds of pension funds were managed by Principal.

He said that Segal was asked to look for a new investment manager and that is why the search was done. He presented the results of the search and he said that Segal's final recommendation was BlackRock.

Mr. Rodgers made the motions to accept the recommendation of Segal Rogerscasey and move the necessary funds to BlackRock. Councilmember Feinberg seconded it. All were in favor.

VII. Pension Plan – 7th Amendment:

Mr. Cohen presented this item. He stated that Plan Amendments are approved by the Mayor and Council and the Board is responsible to manage the Plan, and make recommendations to the Mayor and Council.

He reported that part of the City's FY2014 negotiations with the Union (AFSCME) enabled a change in benefits, i.e., payout or service credit for unused sick leave upon retirement, for new employees. The benefit would not impact current employees. It would only affect employees hired after July 1, 2015. This change would be a savings to the City and the Plan because there



will no longer be payouts for sick leave balances and the pension plan will have savings by not allowing unlimited conversion of sick leave balances to service credit.

This amendment eliminates the option of employees selecting a cash payout for unused sick leave. It limits the amount of unused sick leave that can be converted to retirement service credit to twelve months and eliminates a cash payout of any unused sick leave that will now be forfeited.

The changes that will be recommended to the Mayor and Council on June 2, 2015 will bring this employee benefit more into the mainstream, as many pension plans do not allow for an unlimited service credit conversion or for cash payout of unused sick leave balances.

Ms. Matthews made a motion to support the staff recommended amendment. Councilmember Feinberg seconded it and the remaining five members of the Board abstained. The members that abstained from the vote were Ms. McCombs, Mr. Pierson, Sgt. Peck, Mr. Seemann and Mr. Rodgers; they did not feel for various reasons that any action from the Retirement Board was appropriate and they also noted that negotiations concerning the benefit change had already occurred. The motion therefore failed for lack of a majority.

VIII. Prudential Performance:

Mr. Sherman relayed recent news regarding Prudential. There has been frequent turnover of the Prudential personnel servicing City of Rockville Retirement accounts. Davelva Perez and Mark Murphy are off the accounts. He reported there have been four manager turnovers since 2011 and he noted that City of Rockville staff is concerned about it. He said it is unfortunate, but our Plan is unique. It was noted that after the last record keeping error committed by Prudential, Mr. Cohen talked to Prudential about deficient performance.

Mr. Cohen said that maybe it is time to go to change the process for service of both components of the Thrift Plan (401a and 457). Further, he suggested we may be able to obtain better pricing if the current hybrid approach of two different sets of investment options was combined into a single set of investments. After some discussion, Mr. Seemann suggested to go forward and see if we can get some pricing and see whether the Board could proceed without a RFP process. Ms. Matthews agreed. Mr. Sherman advised to make sure that ICMA can customize the investment alternatives as desired by the Retirement Board. Ms. Matthews' biggest concern is that the service provider is committed to good employee education. Mr. Sherman advised that all desired items should be identified in writing.

IX. Future Agendas:

- Prudential Recordkeeper

Sgt. Peck brought up that he has an employee that was hired from the Union that is a month shy of three years vesting in the Thrift Plan. He wants to buy his three years into the Police Plan. He suggested that there needs to be specific language added to the Plan Document to cover this scenario. Mr. Cohen said the employee will receive a written response of the decision.

Ms. Matthews made a motion to adjourn at 12:08. Councilmember Feinberg seconded it. All were in favor.

THE NEXT MEETING IS SEPTEMBER 11, 2015